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Restaurant Business

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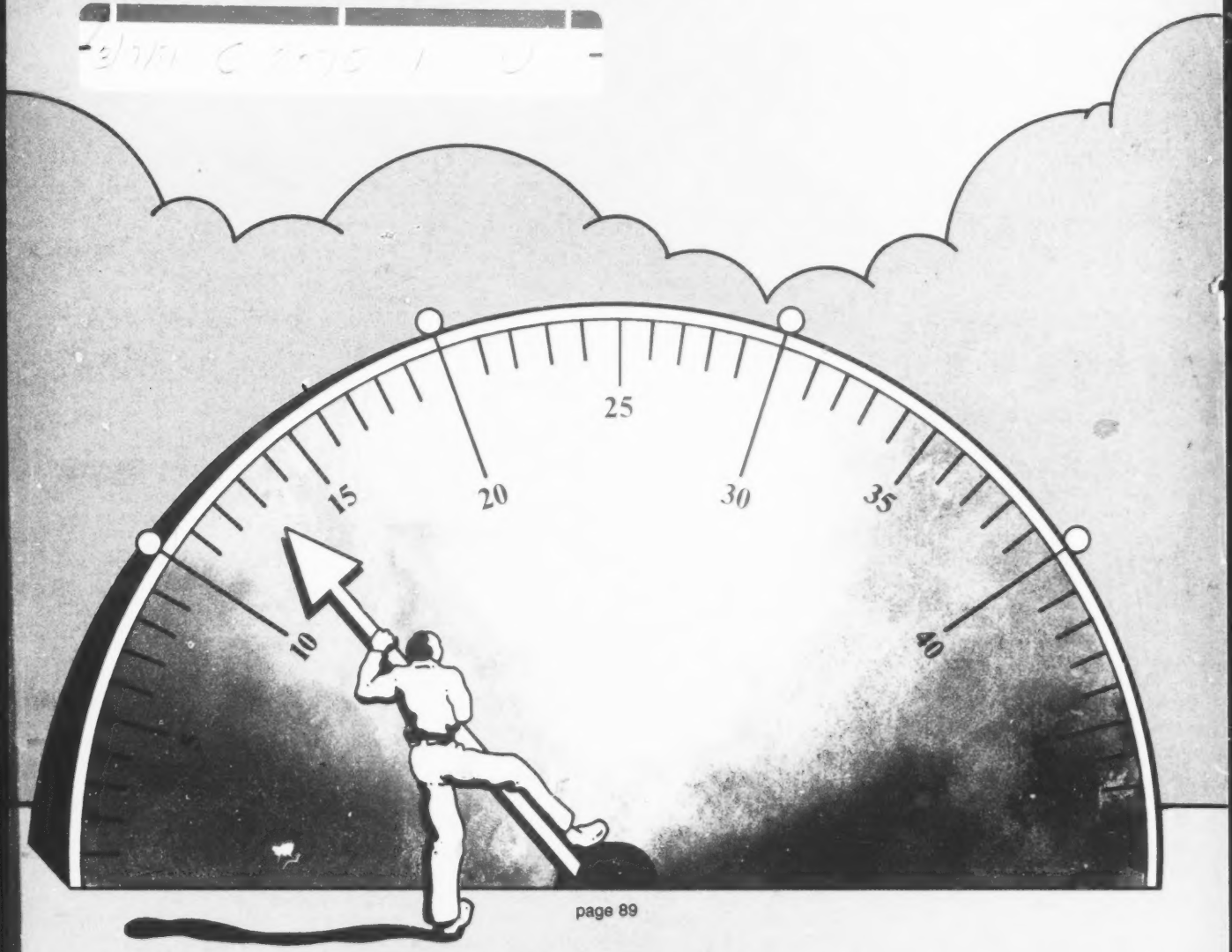

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THE PRODUCTIVITY PUSH

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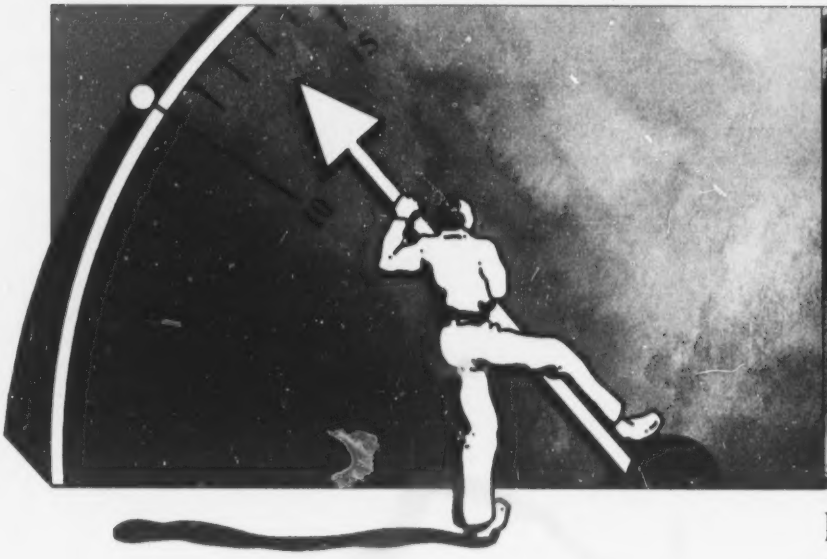

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Circle No. 9 ➔

THE PRODUCTIVITY PUSH

by Denise M. Garbedian

The sagging productivity levels experienced by U.S. business threaten the nation's industrial leadership abroad. Closely paralleling the national trend, the restaurant industry is being weakened by a drop in its own productivity levels. Recognizing the urgency of the problem and the importance of the solution, savvy restaurateurs realize that boosting productivity can help alleviate inflation's bite. The push must begin today. The "push" will be difficult, and the effort must be serious. As payroll costs skyrocket and low paid employees generate even lower sales, the industry, as a whole, must learn to work better, smarter and more productively.

A discussion of productivity conjures up myriad images.

Perhaps the most common image is one of employees rushing around like cartoon characters while a manager hovers near-by—eyes glued to a stop-watch—urging everyone to "work faster, faster, FASTER!"

This exaggerated scenario is representative of a common misconception—interpreting productivity as merely working faster or longer hours. Although an intrinsic part of productivity, efficiency is only *one* of many contributing factors.

Simply stated—productivity is the relationship between output of goods and services and input of money. When output grows faster than input, goods and services are being produced more efficiently—therefore generating a rise in productivity.

"In one sense, productivity represents the efficiency of our collective national economic effort," states C. Jackson Grayson, chairman of the Houston-based American Productivity Center (APC). "But I hesitate to state a definition in those terms . . . More accurately, productivity would refer to the effective use of all our natural resources, including but not limited to, our human resources."

Threat to U.S. economy

The threat to U.S. industrial leadership by foreign countries (notably Japan and Germany) has jolted American business and industry. This gradual erosion of quality, prestige and power has awakened an interest in productivity following nearly two decades of neglect. How to boost the nation's sagging productivity level has become a very real, very persistent problem.

Even the new administration is turning its eyes to an "era of national renewal." In his inaugural address, President Reagan urged: "All must share in the productive work of this 'new beginning' and all must share in the bounty of a revived economy."

According to figures from the APC, productivity in the U.S. during the postwar period grew at an average annual compound rate of 3.6 percent. From 1948 to 1965, the rate was 3 percent.

Between 1965 and 1973, productivity dropped to 2.1 percent. The onset of the energy crisis in 1973 and the severe recession in 1974-1975 combined to drop productivity to a sickly 0.2 percent rate.

Between 1978 and 1979, productivity actually slipped to a *negative* rate of almost one percent. This downward trend continued for five consecutive quarters and the most recent figures for the first three months of 1980 indicate another drop.

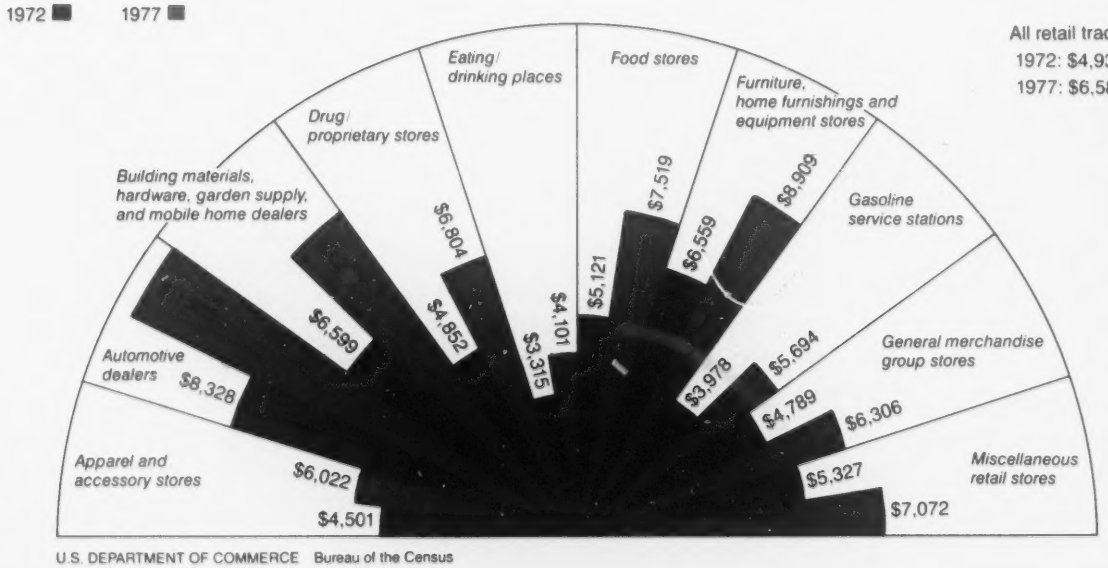
Parallel national trend

Unfortunately, productivity in the restaurant industry closely parallels the national trend. Bureau of Labor Statistics (BLS) figures indicate that in 1979 productivity in eating and drinking places dropped five percent over 1978.

Additional data confirms that labor costs are outpacing sales. According to the latest Census of Retail Trade (conducted in 1977 and issued in 1979), eating and drinking places increased sales 74.9 percent between 1972 and 1975 but this gain was offset as payroll costs increased 76.5 percent.

The census data also examined another key measure of productivity—annual sales per employee. The Census of Retail Trade ranks eating

UNITED STATES ANNUAL PAYROLL PER EMPLOYEE: 1972 AND 1977



U.S. DEPARTMENT OF COMMERCE Bureau of the Census

and drinking places last in this category. The industry maintained this cellar position in both the 1972 census ($13,304 average annual sales per employee) and the 1977 census ($16,308 per employee).

The average for all retail trade was $39,267 per employee in 1972 and $53,653 in 1977. This represents an increase of 37 percent. During the same period of time, eating and drinking places posted an increase of only 23 percent.

With over 4½ million employees the restaurant industry is obviously labor intensive. And yet, the industry—compared with other retailers—pays its employees the lowest. In turn, those employees generate the lowest retail sales per employee.

An offset to inflation

All these facts and figures take on greater significance when coupled with the knowledge that boosting productivity can be the key to solving other problems.

"Productivity growth is intimately tied to rises in real income, as an offset to inflationary pressures and to profit margins," states Elliot S. Grossman of Pace University in his comments on productivity trends published in APC's Total Productivity Index.

According to Grossman: "Only through gains in productivity can labor earn higher wages which do not lead to higher costs, thus enabling the growth in real per capita income, resulting in a rise in the standard of living."

In other words, if you think of GNP as a pie and divide it among the growing population, the labor force must produce more per hour than the previous year for each person's share to increase. Otherwise, a larger percentage of the population must work longer hours to insure a rising standard of living.

Grossman also states: "A rising productivity growth rate would lower inflationary pressures and encourage economic growth, thereby leading to gains in employment and competitive position of American products in the world markets."

Where previously the focus of business was on technology and expansion, there has been a major shift in focus to the development of human resources.

Like its counterparts in other business and retail sectors, the restaurant industry is re-evaluating its productive capabilities and beginning its own push to bolster flagging productivity. While technological advances, menu standardization and simplification, and restaurant design are important contributing factors to this intensive "push," restaurant operators must also capitalize on their employees—teaching them to work better (not necessarily faster), smarter and more efficiently.

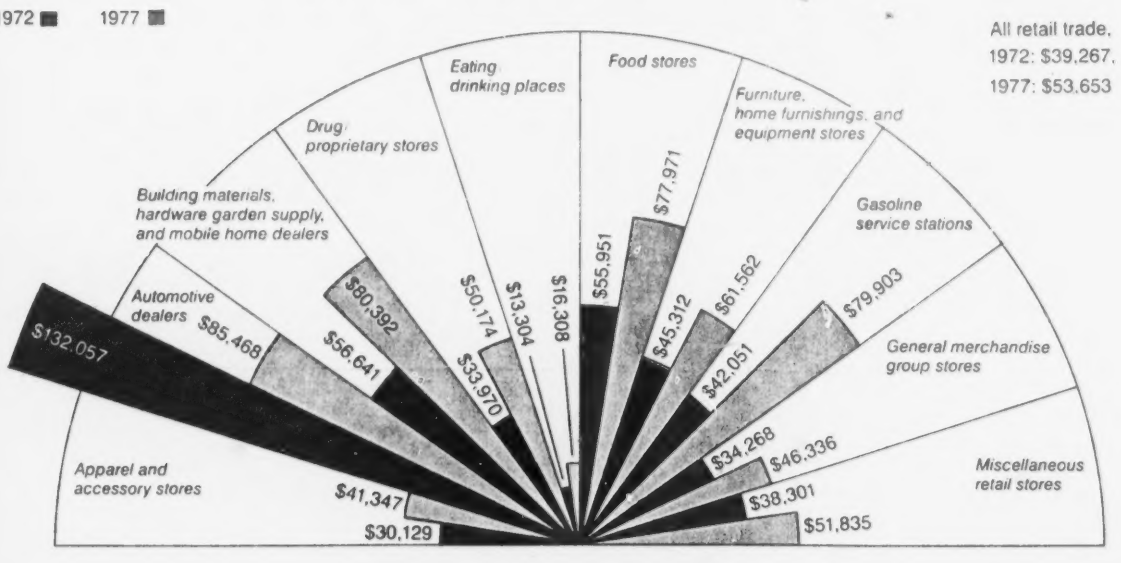
What do you measure?

According to Grayson at the American Productivity Center: "Productivity improvement is more than just the cost of labor or cost of materials or cost of capital, equipment or government regulations. It is all of these things and more."

With all of these factors involved, effectively measuring efficiency becomes a key issue when studying productivity. No universally applicable measure exists since industries define and measure productivity in relation to their industry's finished products.

For example, to determine productivity in a plant manufacturing televisions, management can count the number of sets produced and di-

UNITED STATES ANNUAL SALES PER EMPLOYEE: 1972 and 1977



vide that total by the number of man hours worked to make those sets. The result of this ratio might be the television company's gauge of efficiency and used to aid measurement of employee productivity.

However, this formula poses certain difficulties in "white collar" businesses or service-oriented industries where there are no tangible items produced. For example, how do you measure the productivity of a lawyer or a fireman? Do you count the number of briefs written or the number of lives saved?

Restaurants vs. manufacturers

The restaurant industry also poses some unique problems. According to figures from the National Restaurant Association (NRA), the restaurant industry is only 52 percent as productive as manufacturing industries.

Unlike most manufacturing firms, however, the restaurant industry is one of the few industries that takes a raw product (food), processes it, and makes the finished product available to the customer on the same premises.

Furthermore, in making the comparison to manufacturing, it must also be noted that the restaurant business must allow for *daily* peaks in selling cycles (breakfast/lunch/dinner). Restaurant employees, as opposed to plant or factory workers, have little moment-to-moment supervision. And, unlike a television or a radio, the finished product in a restaurant is not shelf-stable.

An equitable measure?

While the restaurant industry's search for an effective measure of productivity coincides with the searches launched by other industries, an equitable measure pertinent to the restaurant industry and its product must be determined.

"Since there is no set formula for measuring productivity, the entrepreneur as well as the chain operator must take a close look at the business," says Carl Bellas, professor of management science and associate dean of the College of Science at Virginia Polytechnical Institute, Blacksburg, Virginia. "Restaurant operators must ask themselves, 'What do I want to measure?' " explains Bellas.

Restaurateurs tend to measure productivity in either ratios: (sales per hour, for example) or as a percentage of labor cost (labor cost represents x percentage of total revenues, for example).

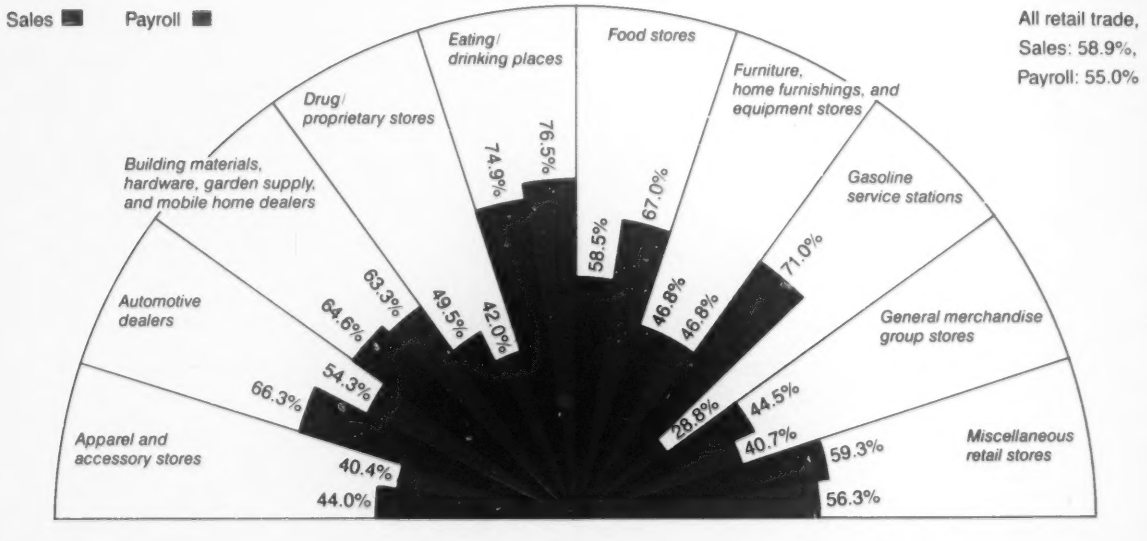
"Ideally, productivity is a ratio concept of output over input. Input represents total resources," Bellas says.

However, he is quick to point out that ratios can disguise problems. "What happens, for example, if you use 'sales per employee' to measure productivity? In this instance, inflation becomes the numerator. As prices rise so does the ratio of sales per employee. But the actual number of sales remains the same or may even drop. Technically, your ratio indicates a rise in productivity which is not there," he explains.

Ted Thelander, a private consultant and instructor of the NRA's "Controlling Labor Costs" seminar series, points out that different segments within the restaurant industry use varied indicators to measure their "food output performance." (Productive output of food is based on its cost per "widget." The "widget" being a variable.)

"In the health care market, management computes the number of meals produced; fast food outlets

UNITED STATES PERCENT CHANGE IN SALES AND ANNUAL PAYROLL OF ESTABLISHMENTS WITH PAYROLL: 1972 TO 1977



Gains in productivity produce appreciable results. Higher productivity can help ease inflationary pressures thereby encouraging economic growth.

track dollar income while white-table-cloth restaurants count customers," Thelander says.

"While the 'widgets' may vary, there are customers in every market segment. These customers become the common denominator."

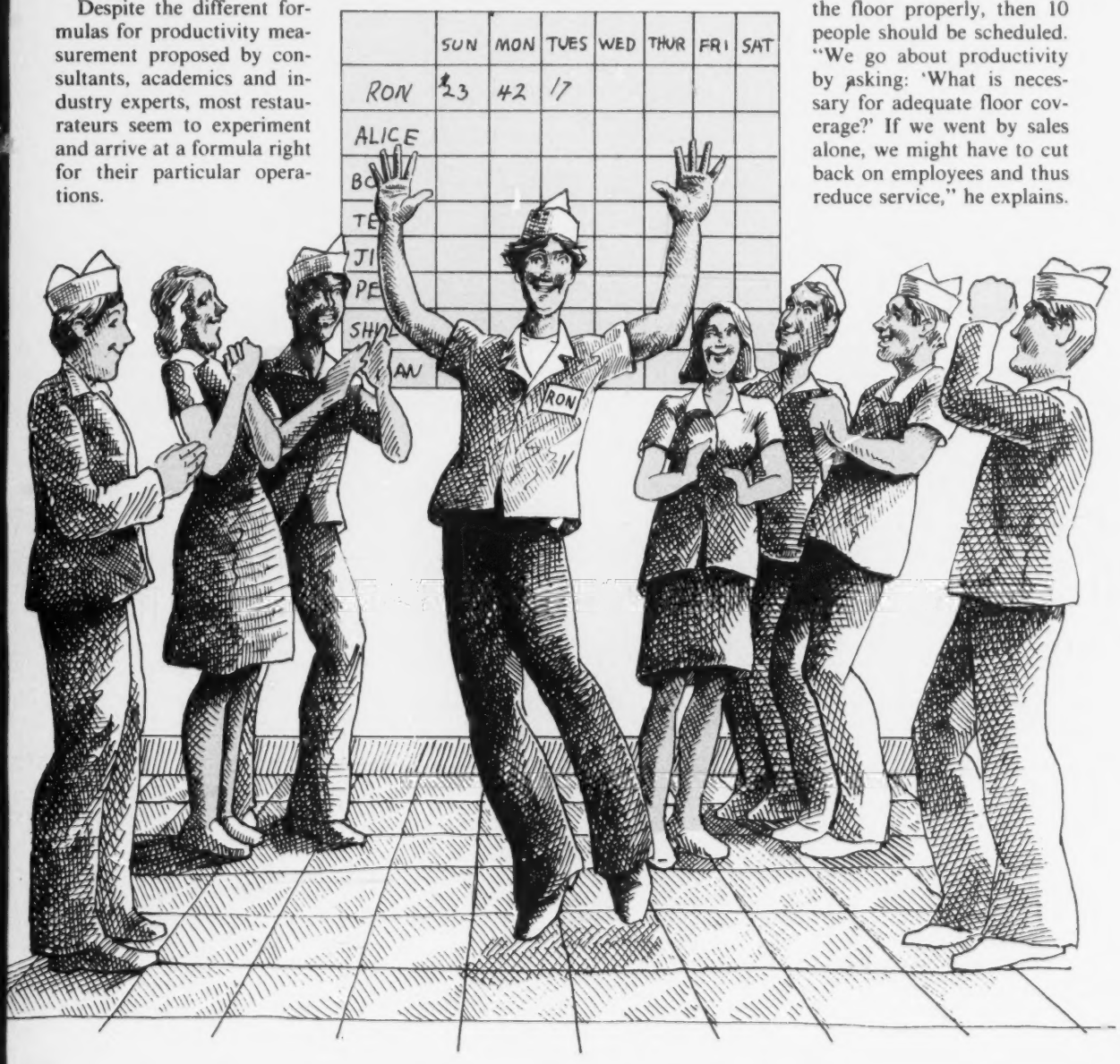
For this reason, Thelander believes "customers per direct man hour of labor" is the best measure.

Despite the different formulas for productivity measurement proposed by consultants, academics and industry experts, most restaurateurs seem to experiment and arrive at a formula right for their particular operations.

Big Boy's big "push"

"Sales per man hours is not a valid method for us," says Roy Raskin, vice president of franchising for California-based Big Boy Restaurants of America. "This gets locked into a numbers game. You can't compare the restaurant business with other retail companies because this industry is so highly service-oriented. It's easy to measure how many 'widgets' a worker on a manufacturing line produces but since we are on a level dealing directly with people, productivity is not as easy to measure," he says.

Raskin contends that if a restaurant has 10 stations and 10 people are needed to cover the floor properly, then 10 people should be scheduled. "We go about productivity by asking: 'What is necessary for adequate floor coverage?' If we went by sales alone, we might have to cut back on employees and thus reduce service," he explains.



Raskin reports that Big Boy's objective—like every other successful company—is to get the highest optimum sales the restaurant can generate.

"The way to increase productivity is to increase sales. Our objective is not to manipulate the employee but rather to manipulate the customer," he says.

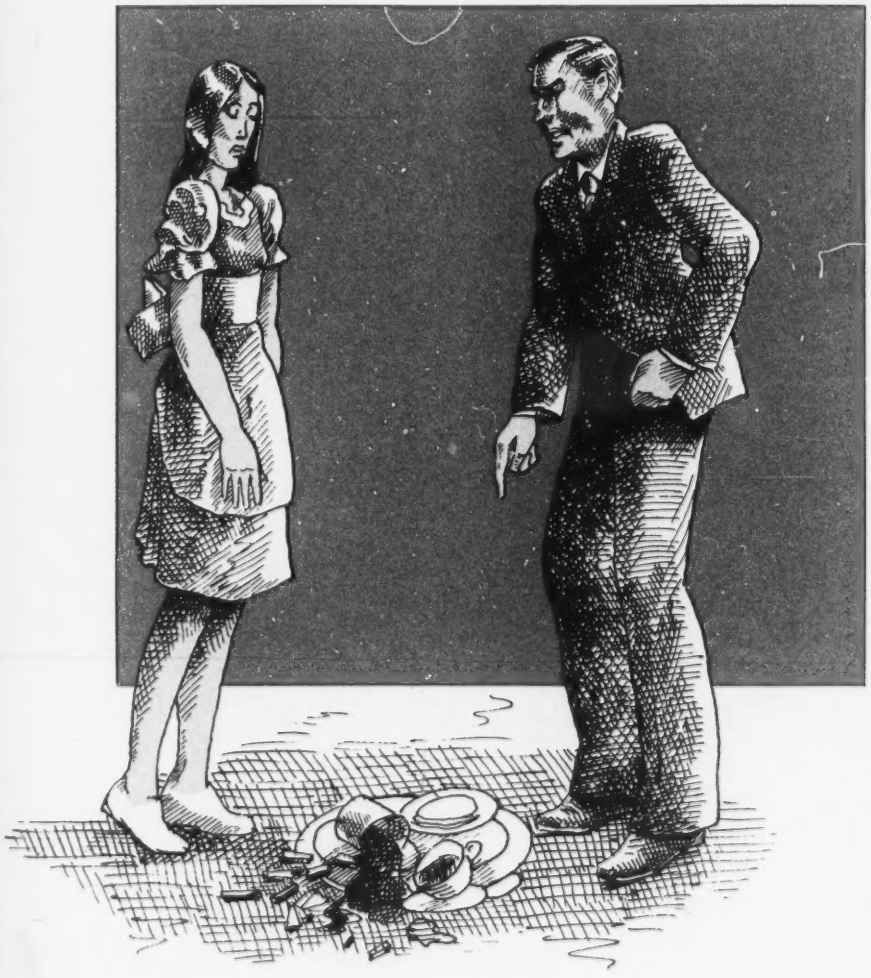
Successful hiring

The key to "customer manipulation" lies in the ability of the servers to do a better job (i.e. increase customer turnover by serving rapidly but without seeming to rush the customer). Therefore, it is necessary first to *find* the right "type" of employee and then to *train* them to perform efficiently, effectively and productively.

To develop an efficient group of workers, a high percentage of successful "hires" is necessary. However, the restaurant industry is notorious for its practice of "panic hiring"—often sacrificing proficiency for expediency.

"Panic hiring seems to be the nature of the business," says James Moffa, director of administration and personnel for the NRA. "Restaurateurs rush to hire and fill in positions rather than taking the time to do it properly. Operators must devise a systematic approach to interviewing and hiring."

At Big Boy, managers attend seminars in interviewing techniques to sharpen their skills. "We try to educate them. We emphasize that they are better off closing a station until they have properly hired and trained employees rather than keeping the station open and filling the vacancy with a poor selection."



Job descriptions

Initially, management must have an accurate description of the position that is open and a clear understanding of the skills and personality needed to successfully perform the job.

And, although intangible personality qualities such as integrity, industriousness, dependability and motivation may be difficult to evaluate during the course of a brief interview, there are methods to the selection process that can help.

"Management must ask 'intelligent' questions and not just shoot the breeze with an applicant," explains Moffa. "Every question must be designed and asked for a specific purpose."

Raskin agrees and notes that open-ended questions elicit the best response. "We ask questions like: 'How would you react if a customer complains to the manager about your service?' or 'How do you work with others?' The answers given to these types of questions indicate more about the applicant's personality than typical 'yes' or 'no' questions," says Raskin.

"It's only natural to sometimes make mistakes but you can tell you've made the wrong choice when you see these employees in action. They only last a short time. In the long run, you're better off taking the time to hire properly," he adds.

Training skills

Part of the restaurant industry's problem in boosting productivity is its continued mismanagement of and/or lack of development of its human resources. However, during the last decade there has been a decided emphasis placed on training skills.

"Years ago, you'd hire someone and put them out on the floor immediately. It used to be a sink or swim situation," notes Raskin. "Today it's a different story. Training and development are part of Big

Since no universally applicable productivity measure exists, restaurateurs must look at their operations and decide what they want to measure.

Boy's foundations. We constantly train and retrain all our employees. Much of service is attitude or knowing how to make a sourpuss a good customer."

Raskin points out that it is important to provide the employee with information about what the job entails. In addition, management can provide employees with the means to be more productive.

"For example, we tell the waitresses, in advance, what to do about menu substitutions. A chart listing requests and prices for those requests is posted in the back-of-the-house. When a customer asks for a half-order of onion rings, the waitress can smilingly complete the order instead of scratching her head and wondering if it's possible. This is an example of how we've built efficiency into the operation."

Raskin also notes the company has studied employee/customer relationships. "We offer the waitresses points on how to deal with customers effectively. There are certain established patterns and we can point them out. The better trained the waitresses are and the more knowledge they have, the better off we are as a company," adds Raskin.

Pal's Captain's Table

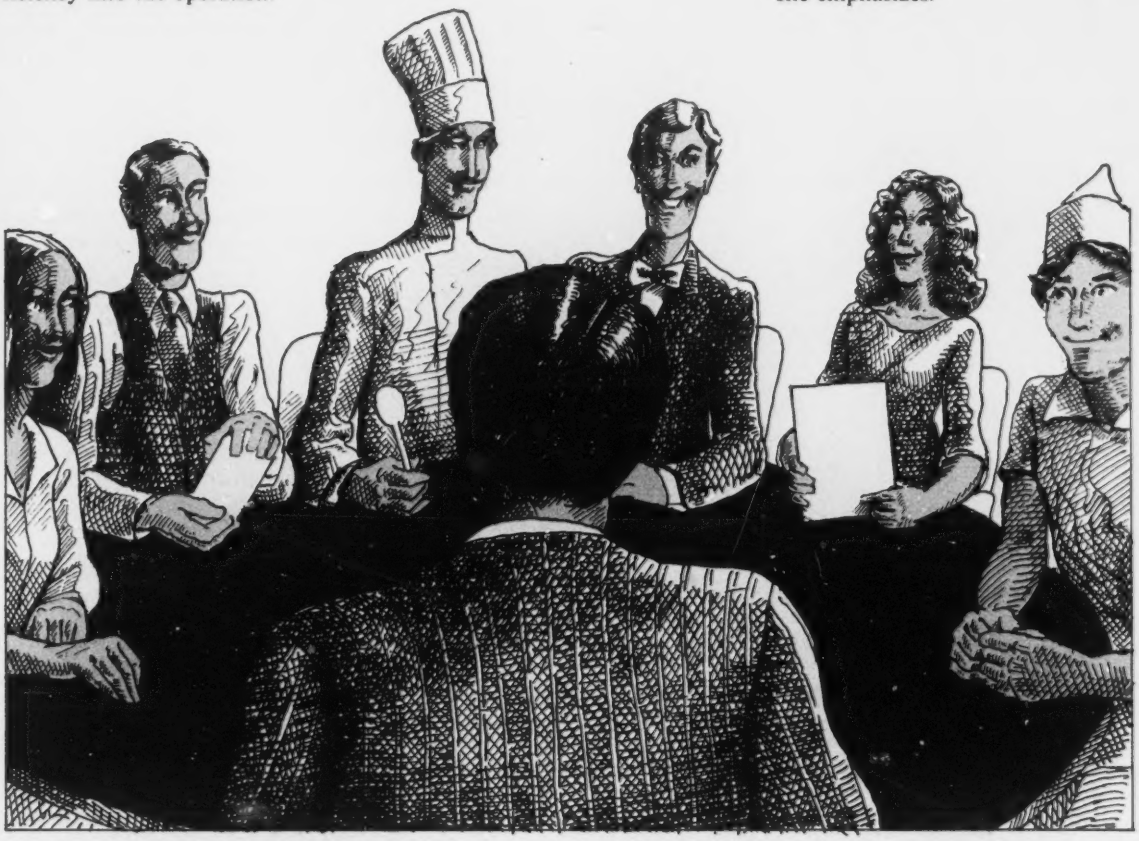
At Pal's Captain's Table Restaurant in Deerfield Beach, Florida, successfully turning 7,600 covers weekly with only 136 employees requires a thoroughly trained staff.

"You can't have your employees running around 'headless'," begins Annemarie Mabille, cost control manager and director of training for the 350-seat restaurant.

"The employees have to know exactly what they are doing and must be trained properly. In Europe, waiters study for years and some are eventually licensed. In America, service personnel only occasionally treat their jobs as a true profession."

In order to bring European service to Pal's, Mabille conducts an intensive training program that combines classroom learning with "on the job" training.

"There are two basic elements. The first is cleanliness. We stress that employees have to keep themselves and the dining room clean. The second is service—they must know the proper way to serve everything from appetizer to wine," she emphasizes.



The technical training includes appearance of menu items, the basics of table settings, proper posture, and how to sell menu items.

"But class doesn't mean anything if you do not apply what you've learned in class to what happens on the floor," she says.

She gives, as an example the incident of a customer dropping a spoon on the floor. "In class, they are trained to bring a replacement on a napkin and present it to the customer. If I see a waiter carrying a spoon in his hand, I will call him over at the end of the meal and discuss this with him," she explains.

Employees work in two person teams. (Currently there are 18 teams.) The "front person" is responsible for serving whatever the guests want (drinks, taking orders, ashtrays, refills). This team member is also responsible for the check and handles the money.

The "back person" makes sure the order is handled properly and concentrates on detailed service. Since all food is cooked to order, it is up to the back person to time the meal properly and know when to place and serve the orders.

A new employee will follow a team for a minimum of three days in addition to the classroom training. Tests are given on specific ideas—how to order an item, for example. When Mabille feels the trainee has successfully completed this portion of the training, a station of two or three tables is assigned.

"One employee who doesn't know what to do, can cause a great deal of damage. I may change waiters in mid-meal if there is a problem. Poor or rude service does nothing to bring back customers. And so, we believe that it is too expensive *not* to train," Mabille adds.

Importance of the manager

"As the manager goes, so goes the restaurant," is a phrase that helps sum up the importance of the first level of management.

Much of the attitude, ability and professionalism of the manager is reflected in the type of employee attracted to a restaurant and the staff the manager eventually hires, teaches and trains.

Like a coach, the manager sets the "team spirit." Ideally, an effective manager is a good motivator, combines humor and discipline, and can dispense both compliments and (constructive) criticism firmly and fairly.

Independents and chains must recognize that good managers—like good employees—need to be trained and then translate this knowledge into action.

"In the fast food segment, today's managers may be technically competent and have developed expertise in running the machines efficiently, but they are lacking in the area of managing people," says Bellas.

"And the basics of business operations may be foreign to entrepreneurs. While good independents run on "gut" feelings, these intuitions must be further channeled into action" he says.

Bellas also points out that during the 70s much of the concentration of the chains focused on growth and expansion rather than training and development. However, as markets become saturated and competition stiffens, better trained staffs lend a competitive edge to a company and higher employee productivity translates into added dollars.

As a result, training of managers and crews takes on a new importance. (The plethora of fast food "universities" testifies to the chains' growing interest in the development of human resources.)

While large companies are admittedly far from perfecting training techniques, the individual operator can learn from programs established by the "giants" and information available from outside sources.

Scheduling

"Restaurateurs, especially independents, need to devise better work schedules," warns Bellas. "Some managers have a tendency to schedule their staff according to what the employees want rather than what the restaurant needs. During busy dinner periods, for example, operators need to have their best people on the floor—even if it means paying a premium."

For Red Lobster Inns of America, however, productive scheduling has paid off handsomely. Approximately, one year ago the company developed a chain-wide program to effectively stagger employee starting time. Since the company's management information system tracks customer counts on a daily basis,

Sensor

Action-oriented, confident, competitive, assertive

units can tailor their scheduling needs accordingly.

According to parent General Mills, "the program has had a major impact by reducing non-productive wasted hours and has saved well over $2 million this past year alone, without affecting customer service."

The company also reports the reduction of employee turnover to be about half the level of the industry average.

"Red Lobster has increased employee productivity through systems development and employee development," says William E. Hattaway, president of the Red Lobster Inns of America. "The improved systems provide us a vehicle to track productivity (i.e. sales per employee.) Our systems development measures guests served per labor hour, total labor hours by job function and labor expense per guest."

Hattaway attributes reduced employee and management turnover to better training procedures, benefits and a profit sharing plan. "Management trainees are recruited and trained continuously, rather than at the last minute," he explains, "emphasis is placed on employee relations and business management skills training as well as operational training."

Effective communication

For any manager to become an effective leader he/she must develop their talents as communicators. Since most communication is verbal, the first and possibly most important step to effective communication is *active* listening.

According to Thelander, it is possible to raise the "listening quotient" of a leader or manager by teaching them *how* to listen. "It's not that people don't hear; it's that they don't listen," he emphasizes. "Active listening is vital for *any* type of relationship."

Following are four basic steps that management, or anyone for that matter can utilize to listen more effectively.

The *listener* promises:

1. "I will commit to be with you while you speak." In other words, the listener will stop everything and pay strict attention to the speaker.
2. "I will not speak until you finish." This basic courtesy allows the speaker to express himself completely.
3. "I will repeat what you said." The listener repeats the message from the speaker. This will assure accuracy.
4. "You will agree." The speaker affirms the listener's understanding of the message communicated.

Feedback systems

To successfully respond to employee attempts at communication, it is obvious that management must establish some type of feedback system. Thelander points out however, since it takes long periods of time to straighten out these areas, many companies prefer not to spend 80 percent of their time in an area that produces only 20 percent of their profits.

He also mentions one way to gauge productivity would be to ask the employees themselves: "How do you know you are doing a good job?"

Unfortunately, he notes the most common response is: "When I haven't caught hell lately."

According to Thelander, leaders or managers can use three methods in dealing with employees: 1) positive strokes (praise or other positive reinforcers); 2) negative strokes (criticism—not necessarily constructive—or other negative reinforcers); 3) zero strokes (no feedback whatsoever—this extincts both good and bad behavior).

He notes that many organizations use a combination of both negative and zero strokes throughout the year.

Then, at the end of the year, employees are reviewed. As a result, these companies "put a lid" on their employees. "How can you expect to develop people that way?," says Thelander. The way to develop people, he claims, is to use positive strokes like active listening and delegation of responsibility.

Thelander suggests using a scoreboard as one method to provide these positive reinforcers.

"For example, you establish a goal. Let's say you want to sell x number of hamburgers. You draw up a chart with everyone's name on it and post it in an area of high visibility. Then, you keep track of the number of hamburgers sold by each employee on either a daily or weekly basis. In addition to spurring productivity and competition, the involvement gives the employees a positive stroke," he says.

Feeler

Friendly, spontaneous, loyal, persuasive, empathic

Team building

Thelander is also a strong believer in using "team building" as a positive stroke.

Similar to Japanese industry's "quality circles" (groups of 10-12 employees who work on quality and improvements in production), team building brings together the employees who could make a meaningful contribution in an open dialogue and has them work for a common goal.

The quality circle or team building technique is particularly attractive because it involves those closest to the situation and allows the person most familiar with the facts (sometimes a part-time employee) to participate in making decisions.

Moffa of the NRA, using wine promotion as an example, says participants representing management, employees and customers should discuss the 'how-to's' of the topic in a 'no-fault' atmosphere.

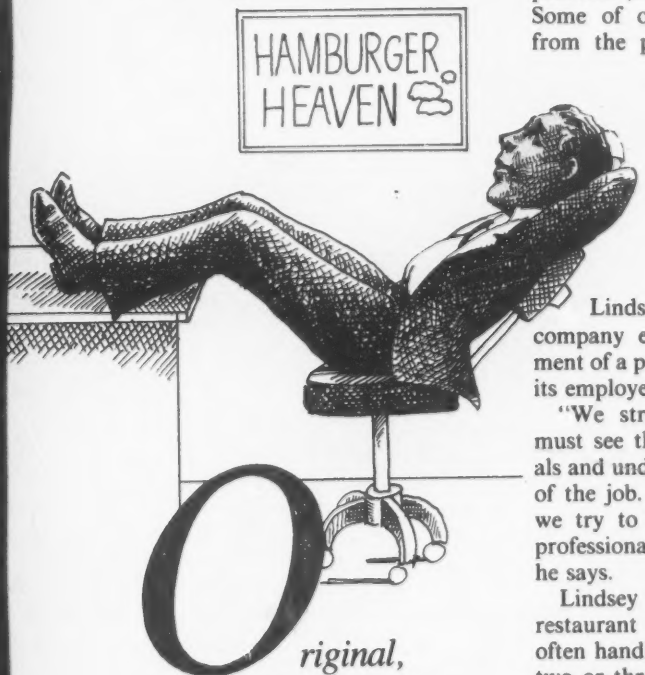
Moffa notes that when this idea is introduced and discussed at seminars, he asks participants to suggest a list of attendees. "They invariably leave out the bartender he says "And he may have the most impact during a wine promotion."

Ohio-based Famous Recipe Fried Chicken Restaurants is one company aware of the power of positive strokes and actively using the team building technique.

"We try to encourage all the pertinent employees to participate in these sessions," says Glenn Lindsey, the company's director of training.

"For example, if a manager wants the unit cleaned more quickly, he'll include the entire cleanup crew—full and/or part time employees—in the discussion of the problem and its possible solutions. Some of our best answers come from the part-timers. This is because we consider them an important part of our business and not just transient teenage workers," he says.

Intuitor.



Original, imaginative, creative, tenacious

The "famous" attitude

Lindsey emphasizes that the company encourages the development of a professional attitude in all its employees.

"We stress that our managers must see themselves as professionals and understand the complexities of the job. In our training classes, we try to develop that feeling of professionalism in the managers," he says.

Lindsey points out that in the restaurant industry, the manager often handles the responsibilities of two or three people in comparable positions in other industries. "The manager hires, trains and disciplines employees as well as doing paperwork, billing and sometimes even cleaning. Managing a unit is a complex job that demands intelligence and organization," he notes.

This emphasis on professionalism begins at the top level of management and filters down to part-time employees. "Because of the industry's high rate of turnover, many companies don't think training is worth the effort or the investment of time and money. However, we believe that good training and a professional attitude—be it on the managerial or hourly level—is the key to getting employees to work at their best or most productive levels," says Lindsey.

He notes only one person is responsible for training—the manager. "We insist that the manager *never* delegate the responsibility of training. No one but the manager can set the high standards or expectations of performance. It is imperative that the manager lets the employees know from the beginning, what is expected of them in terms of attitude and performance," explains Lindsey.

Managers must also explain the "why" of procedures to employees. "Explaining why you put out a good product builds attitudes and values. Besides, if you don't explain why you operate in a particular way, the employee will try to find a short cut. And although this may be the quicker, easier way in the short run, these short cuts slow down the production effort in the long run. It is imperative for them to build pride in their job." says Lindsey.

"The manager must set workable goals and maintain them. If, just once, you let the standard slip and settle for mediocrity, you've lost that standard forever."

To let the employees know the company is concerned, management watches job performance carefully. "Performance reviews are an important part in building both pride and boosting productivity," explains Lindsey. (Thelander would call these reviews positive strokes.)

"Reviews are scheduled every three months but new employees may be reviewed as often as once a week. The review can be very infor-

mal. And, of course, if there are any immediate problems or questions the manager maintains an 'open door policy' to discuss any difficulties," says Lindsey.

He notes the importance of verbal rewards when a job is well done. These should be followed up with monetary rewards when reviews are conducted.

Communicating styles

Prodding people to work at optimum levels of efficiency and productivity takes managers who know how to communicate. During management seminars, Famous Recipe Fried Chicken unit managers are given a Survey of Communicating Styles developed by Dr. Paul P. Mok of Dallas, Texas. Through a series of questions, the survey indicates an individual's style of communicating.

The basic premise of what Mok calls "Communicating Styles Technology" (CST), is that most people blend four communicating or behavioral styles in their approach to life and work. However, most people have a dominant or preferred style. (Under stress an individual may shift styles and take on a different dominant style.)

As defined by CST, the four styles and basic characteristics are:

1. *Sensor:* emphasizes action and bottom-line results. Assertive, hard-driving and to the point. An entrepreneur is a typical occupation of a sensor.

2. *Feeler:* emphasizes emotions, feeling, human interaction and is warm and friendly. A salesman is a typical occupation of a feeler.

3. *Thinker:* emphasizes logic, organization and analysis. Methodical and rational. An accountant is an example of a typical occupation for a thinker.

4. *Intuitor:* emphasizes ideas, concepts, theory and long range perspective. Imaginative and creative. An artist is a typical occupation of the intuitor. Mok emphasizes that no style is better than the other; each style is valid.

The company uses CST to help managers anticipate the communicating styles of their co-workers and employees. By recognizing the basic characteristics of each style, managers can adapt or modify their approach (style-flex) to show sensitivity towards another person's style, avoid or reduce conflict and thus obtain more productive results from their employees.

"For example, let's say the owner of a franchise is a sensor—which means he's action-oriented—and the manager of the unit is a thinker—which means he's more methodical. If a problem comes up, a natural conflict might arise. The owner might wonder why the manager is not moving faster and the manager might wonder why the owner is in a rush," he says.

According to Lindsey, under the CST system, the manager could style-flex his response and talk to the owner in terms of short-term plans, deadlines and results rather than presenting long-range objectives in a detailed meeting. "In this way, you head-off the conflict, yet resolve the problem," he notes.

The CST system is still experimental and the survey is not given to hourly employees. Instead, it is given to managers to make them aware of communicating styles and characteristics and what they might imply.

Lindsey explains that CST along with team building, training and performance reviews are methods Famous Recipe Fried Chicken restaurants use to develop their employees to their full potential.

"We are not interested in how many trays of chicken an employee can produce in an hour. We are more concerned about getting the crew to work together well as a whole and pushing the individual to do their best," adds Lindsey.

Setting goals spells success

In order for employees to perform well, management must set definite—but obtainable—objectives or goals.

Custom Management Corporation's STAT program put this theory into action. STAT (Strength Through Action Today) began in September 1979 with the establishment of 10 specific goals and officially ended in January 1980 with the specified goals either reached or surpassed.

"STAT was a fun program with high visibility which worked," says Arthur W. Evans, executive vice president of the Pennsylvania based institutional foodservice management company. "The program touched every one of our 8,000 employees in some way."

The 10 point program of measureable goals included: reducing corporate inventory 10 percent; reducing corporate receivables by 15 days; reducing account receivables by $500,000 and improving billing time by five days.

"Through the STAT program we improved our payables with cus-

Thinker

Deliberative, prudent, rational, analytical, well-organized

Tips for increasing productivity

Employees will do their best for the operator who gives something in return.

Following are some specific tips for increasing productivity among your associates as prepared by Ray Petteruto, who is author of the book *How to Open and Operate a Restaurant* and has 33 years experience in foodservice operations.

- *An open dialogue with your workers.* Communication is the key to increased productivity. Management always wants 100 percent from its employees, but how many managers take the time to include all workers in a "family" grouping as a means to maximize productivity? At periodic staff meetings, at least once a week, both your problems and your workers' concerns can be aired. Share information in a constructive fashion. This helps to find mutually beneficial solutions.
- *Don't just point out the mistakes.* Like an athletic team, employees actually want to be directed and motivated. The operator must talk to them in a positive manner for both encouragement and reassurance. Don't wait until you see a mistake before communicating with your people. A more positive reinforcement is a better technique for increased productivity.
- *Remember when* you *were there!* Productivity is also promoted when the operator can remember the problems and responsibilities associated with his/her own climb up the ladder. Some operators forget how it was to wash dishes with not enough soap to use or not enough racks. In other words, consider the technical requirements of each position from which you expect maximum performance.
- *Assess the individual's particular talents.* The time the operator invests in surveying the individual abilities of each worker will be paid back with increased productivity. Build a team utilizing the particular talents of each person. Observe your workers and match each to the most suitable job function.
- *Listen to everybody.* Sometimes the worker who may be considered the lowest on the totem pole can bring to light possibilities for increasing productivity. Your customers are the ones who know more than anyone about the results of maximal productivity. Customers want all the things you want to give them: value, service, cleanliness, quality, etc. There is no one more reliable than a trusted customer to let you know confidentially where some area of your operation may be lagging behind. Equally as important, listen to your suppliers who visit your operation. These professionals visit a wide variety of foodservice operations and see many efficiency methods employed.
- *Be an observer.* Actually look at what your people are doing. Through observation alone, there are many obvious steps you can take to increase productivity. Where are the wasted steps in service and how can they be corrected?
- *Use of job descriptions.* Another technique is to write a full job description for every position within the operation, have them typed and placed on a bulletin board where employees can see them. A day-to-day reminder of the employer's expectations can be a valuable tool toward increased productivity.
- *Divide and conquer the productivity problem.* You can't physically be everywhere at once, so have one person responsible for each operational function. This actually rewards those individuals in whom you have confidence, and they will act to the best of their ability in your stead to produce in their respective areas.
- *Never work "yesterday."* An important factor in promoting a spirit of increased productivity among employees is to never, never procrastinate in your own assignments, nor let your workers procrastinate in theirs. It's discouraging to arrive to prepare breakfast and find dirty dishes from the night before.
- *Keep a clipboard.* Productivity increases when the problems which slow you and your workers down are remembered. When a point of efficiency comes to mind or employees make a recommendation that could help with their own tasks, make note of it on a small clipboard kept in a convenient place when you are on the premises. Take action on these points as soon as your schedule allows.
- *"Jump in" occasionally.* If your dishwasher or chef gets behind during peak hours, don't be shy about occasionally "jumping in", perhaps setting an upgraded pace, if necessary. There will be some critics who would advise against stepping in on one of your subordinate's responsibilities; but if handled positively—your employee will actually be flattered knowing that the boss thinks enough of him/her to be of assistance. And, nine chances out of ten, a slack pace would be accelerated.
- *Demand good use of slow periods.* Hourly wages remain the same, in both slack and busy periods. Make employees aware that in peak periods there is nothing else that should occupy their thoughts or energies but servicing the customers' needs. Slack periods must be identified as productive time, from advance kitchen "prep" work to filling sugar dispensers.
- *PSB principle*—Put Some Back. My feeling is that employees will do their best for the operator who will give something back to them that they earn for him/her. It can be in terms of percentages of profit, pay increases, vacation incentives or, most importantly, elevated self-esteem.

tomers; improved relations with purveyors and pulled ourselves out of a debt position with the bank. By reaching our objectives we increased our cash flow productivity," explains Evans.

To heighten employee awareness, Custom Management made STAT a corporate game. Staff people in the field who developed cost efficient/effective ideas received STAT award cash prizes ($200 for the first prize.)

In addition, every week for a period of two months, posters capitalizing on use of the acronym STAT were sent to the 250 units. For example, the phrase: "Don't let inventory become an Empire STAT building" was coupled with a picture of inventory stacked in the shape of the Empire State building with King Kong perched on top.

For their hospital accounts, the acronym had a double meaning. "In hospitals, STAT (taken from the Latin *statium* which means immediately) is commonly used on patient charts.

"About 50 percent of our business is hospital foodservice and the STAT buttons we had printed were so popular we had to order a couple of thousand more. The buttons made the program visible," he says.

Evans maintains, however, that STAT was a one-shot program. "We moved on it quickly and railroaded it through. The program's high visibility became boring after a period of time," he explains.

Once Custom Management reached its goals, it established new corporate policies to maintain the new productivity levels.

Custom Management also sets objectives for its middle and upper management. These goals are tied to reward incentives.

"The bonus system is tied to the profitability of each unit. Since every budget is negotiated separately, each manager is under pressure to stay within his budget.

"If a manager makes a larger profit than allotted, he receives a percentage. On the other hand, there are negative incentives, too. If a manager should wait too long on receivables, he is penalized," explains Evans.

District managers with control of 10 units are also part of a reward system. For example, these supervisors are responsible for the timeliness of reports (payroll, invoices, etc.) for their units. If all the units in their district submit their reports on time, the supervisor receives a bonus; if any are late, there is a penalty.

"Employees need objective measurements and management acts as a scorekeeper. You hear that money is not a motivator but I don't believe it. In the foodservice industry, it's a combination of money and a pat on the back. We've put that at-

titude into practice," Evans adds.

Employee loyalty

Since many companies consider Japan an industrial leader in terms of sustained growth and productivity, it is interesting to note that much of the country's success is attributed to a cooperative attitude between management and labor.

In a recent issue of *U.S. News and World Report,* Koehi Goshi, chairman of the Productivity Center of Japan, talks about the country's lifetime employment system. He says: "Once a person is employed, he usually stays with a company for his whole working career. He entrusts his entire life to the corporation. He shares his prosperity with the company."

In American business, where the scramble to the top by way of many companies is typical, this philosophy is unusual.

In the restaurant industry, where the annual employee turnover rate can be as high as 400 percent, this philosophy is almost non-existent.

The NRA estimates place the annual employee turnover rate anywhere from 300 to 400 percent. Latest figures also indicate that 90 percent of employees leave within the first 90 days; 50 percent leave within the first 30 days.

However, in certain respects, White Castle Systems, Inc. seems to be the exception to the industry norm. "Too many people treat restaurant employees as short term or temporary help," says Gail D. Turley, director of advertising and public relations, for the privately held company. "We try to approach it as a foodservice career business."

This attitude is obviously successful, for Turley says that 12 percent of the company's 7,000 employees have provided from 10 to 25 years of continuous service.

In addition, at this time, 150 people have achieved 25-45 years of continuous service. (These figures do not include people who have left the company and returned later.)

"When an employee passes the 25 year mark we make a big celebration out of it. It's sort of like 'Queen for a Day.' We fly the employee to Columbus for a weekend; give them a tour of company facilities; throw them a party and take them out to dinner. We also present them with a gold watch," he explains.

What inspires such loyalty? Turley attributes much of the company's success to its emphasis on the "human side" of the business. The extensive—and unusual—benefits begin with the first paycheck, since White Castle hourly employees are paid above the minimum wage from the start. Depending on the city, hourly workers' pay ranges from $3.50 to $6.

White Castle benefits

The basic benefit package is available to *every* employee regardless of position. (Some are available within three months of starting, others within the first year).. The package includes:

- *Cash bonus*—In 1979 White Castle Systems, Inc. distributed over $1½ million in cash bonuses. "We've issued a cash bonus every year since 1936. The bonuses are drawn from a fund (determined by sales) and distributed on the basis of length of service. Six months of employment is worth one credit. In 1979, one credit was worth $36.24.
- *Profit sharing plan*—In 1979, the company paid $4½ million in profit sharing. The company supplies 50 percent of annual profits and funds which are held for deferred compensation. If an employee should leave after a few years, only the vested interest is paid to them.
- *Company-paid pension plan*—Provides full benefits before 65 with 40 years of continuous service.

Other benefits to sweeten the White Castle package include: formal individual progress reviews at least every six months to determine performance and wage increase; supply of uniforms and laundry facilities; reimbursement for educational courses and all the meals eaten on duty, free of charge.

One of the biggest benefits and incentives to White Castle employees is its promotion system. According to Turley, every operational manager/supervisor position is filled by promotion from within.

Since all employees learn every function of operating a unit, the company uses the term "operator" rather than waiter or waitress. From the position of "operator" employees can be promoted as follows: shift manager, assistant unit supervisor, district supervisor and regional manager. Turley estimates it takes two years to be promoted from operator to assistant unit supervisor.

"However, some people don't want the headaches of a supervisory job. These people come in; work their shift and go home. These employees are the backbone of the company," he boasts.

The company measures its workers' productivity by tracking the sales per labor dollar and sales per labor hour.

Production innovation

The company also encourages suggestions from these hourly employees about a unit's production and operations. Turley notes that the best production innovation was suggested by one of the hourly employees working on the grill.

"When we first introduced frozen meat patties," he recalls, "a grill man on duty noticed the patty cooked faster when it was broken. This led to the development of our patented process of putting four holes into each beef square. This allows the burger to cook completely without turning and heats the bun."

White Castle also provides its employees with a code of ethics. This philosophy states: "... work well, excell, fit into the group, be worthy of the other person's consideration and take pride in your work . . ."

"While this may sound corny, this type of ethic attracts a certain type of individual. We work on the theory that the cream will rise to the top and the rest will fall to the wayside," adds Turley.

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The Productivity Push

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Subconscious desires

Personnel studies indicate that there are nine subconscious desires shared by all. They are: recognition of efforts, creative outlets, sense of personal power, sense of roots and belonging, new experiences, immortality, ego gratification and love.

Although the restaurant industry can do little about fulfilling the last four desires, management can utilize the first five as powerful motivators to boost productivity.

While monetary rewards act as incentives, most employees are willing to accept payment they believe is competitive for the industry in which they work.

But certain incentives can't be bought and have nothing to do with money. They include: recognition for a job well done (at Red Lobster, for example, outstanding service is recognized through a letter from the company president, financial reward or an item in the company publication); solicitation of ideas and suggestions; job rotation to prevent boredom and allow employees more knowledge of restaurant operations; delegation of responsibility; and employee parties and/or competitive sport teams to provide a sense of belonging.

Forceful "push"

Productivity is a confusing and often frustrating problem. But there can be no doubt that as one of the largest employers of human resources, the restaurant industry is compelled to join other U.S. businesses in a search for the solution.

People respond to the treatment accorded them. If restaurateurs continue to regard employees as "transitory;" if they continue to regard their staffs as unproductive yet offer no incentives or fail to provide goals, they will create their own self-fulfilling, self-destructive prophecy.

A forceful "push" to boost the nation's and the industry's sagging productivity levels must begin *today* with a concerted effort from top management as well as hourly employees. □

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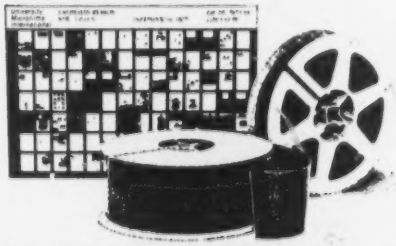

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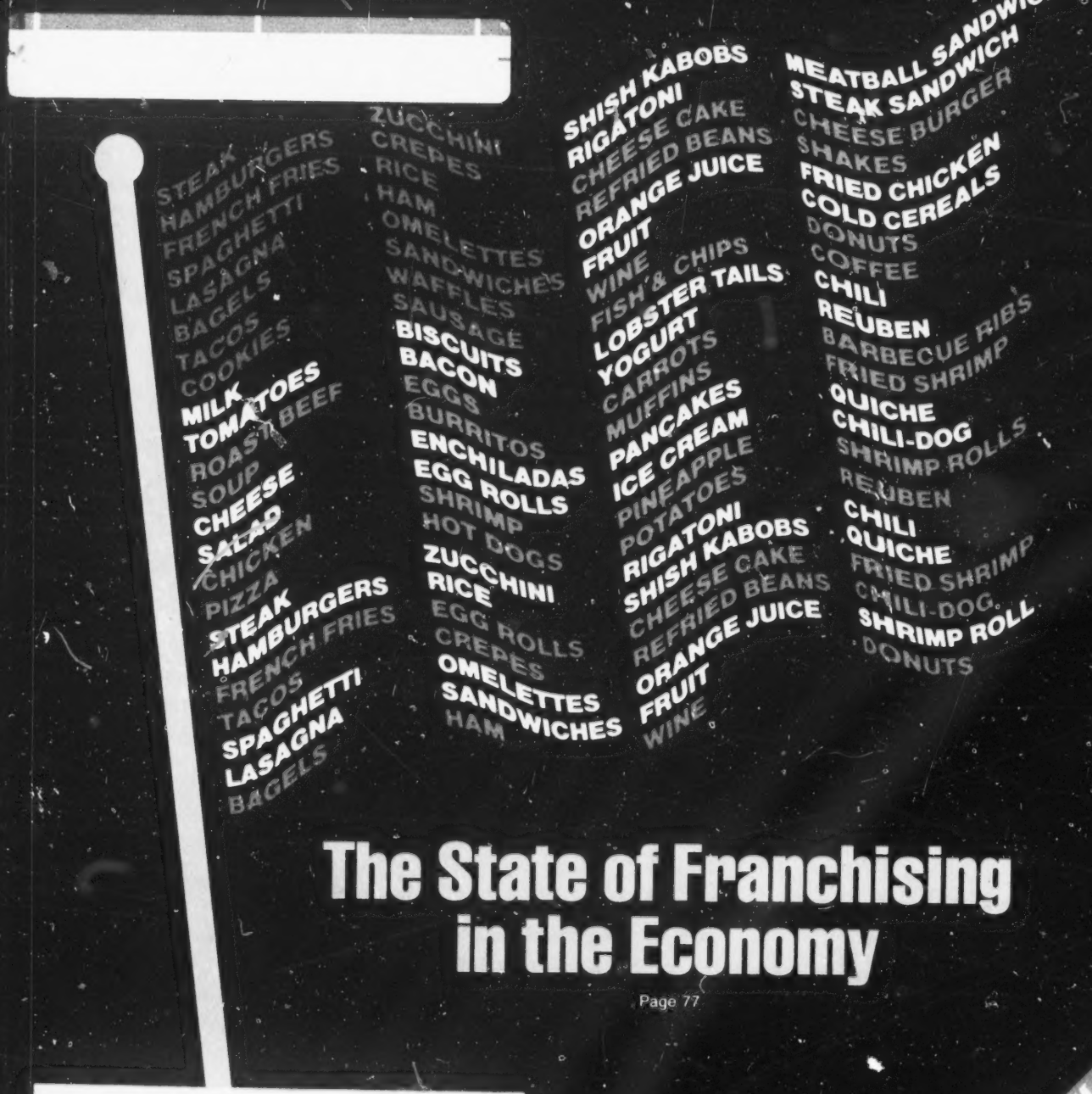

The State of Franchising in the Economy

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Restaurant Business

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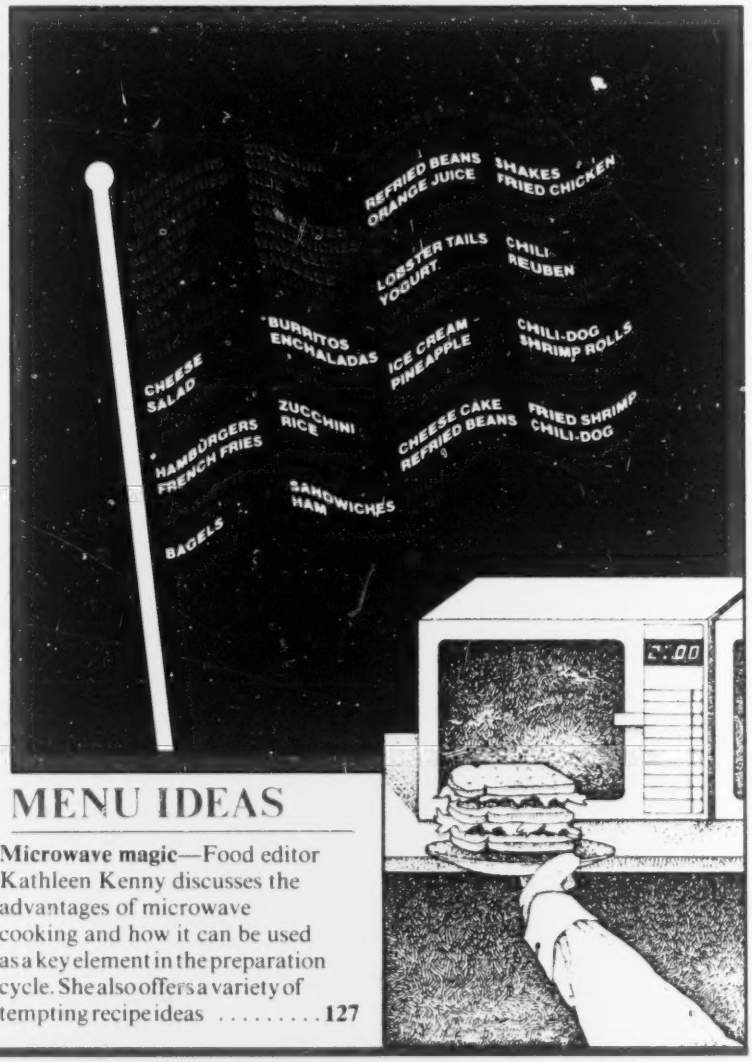

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Cover by Joan Dworkin

← Circle No. 9

Restaurant franchising in the economy

"Franchising in the Economy, 1979-1981," is an updated study about franchising in the United States which is issued annually by the Department of Commerce. Each March *Restaurant Business* publishes excerpts from the survey results which pertain to franchised restaurants. The report and tables are prepared by Andrew Kostecka of the Service Industries Division, Bureau of Industrial Economics, which is under the supervision of Wray O. Candilis, director.

Franchising, as a method of distribution, has become a significant part of the U.S. economy, comprising numerous categories of commercial enterprise and including all of the ingredients of the marketing system—planning, production, packaging, pricing, promotion, advertising, selling, buying and competing.

It is perhaps the only form of business organization that, by its very nature, tends to create new business units. When the franchisee joins the franchise system, the new tradename, the acquisition of a distinctive business appearance, and the standardization of products, services, and operations procedures lead to the birth of a new enterprise for the express purpose of marketing the franchisor's products or services.

To follow this rapidly growing industry, the Bureau of Industrial Economics of the U.S. Department of Commerce has conducted its tenth annual survey of franchisors, the only one of its kind in the country. It is based on individual returns from 1,459 firms representing the vast majority of business format franchising sales and establishments in the United States.

Persistent inflationary pressures, unprecedented fluctuations in interest rates, and a sharp recession were among the major economic developments affecting franchising in 1980. Declines were experienced by some industries, especially those related to motor vehicles and homebuilding.

Although the '80s will continue to offer numerous franchise opportunities, they are expected to be somewhat less vigorous than the '70s partly due to a slower rise in the labor force, more competition among franchisors, increased costs, and changes in consumer spending habits.

Numerous acquisitions in the franchising field are taking place, with foreign corporations entering the scene in greater numbers.

Recent economic conditions have forced a general profit squeeze on many types of small business that has resulted in many independent firms turning to franchising. In 1979, the net number of companies entering the franchise system has shown a five percent increase over the previous year; this trend is expected to continue in the early 1980s.

Franchise sales of goods and services by all franchising companies are expected to reach $376 billion in 1981, an increase of 21 percent over the sales reported for 1979, while the number of establishments will be approximately 476,000 in 1981, up from 452,000 in 1979. Employment in franchising, including part-time workers and working proprietors, is estimated at 4.6 million in 1979.

Product and tradename

Traditional types of franchising, otherwise known as product and tradename franchising, consist, primarily, of product distribution arrangements in which the franchisee is to some degree identified with a manufacturer's supplies.

Typical of this segment are automobile and truck dealers, gasoline service stations, and soft drink bottlers. Together they dominate the franchise field, accounting for over 76 percent of all franchise sales for 1981.

Total sales by product and tradename franchisors are expected to reach an estimated $287 billion in 1981 compared with $254 billion in 1980 and $240 billion in 1979. The number of establishments, however, is expected to decline in 1981 to 185,800 from about 200,000 in 1979, mainly due to closings of gas-

Dept. of Commerce Report

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RESTAURANT FRANCHISING: 1979-1981

Major Activity	Firms	1979 Total	1979 Company-Owned	1979 Franchisee-Owned
Total	399	$24,765,916	$8,076,401	$16,689,515
Chicken	32	2,258,017	739,354	1,518,663
Hamburgers, Franks, Roast Beef, etc.	112	12,740,586	3,066,896	9,673,690
Pizza	73	2,141,618	821,046	1,320,572
Mexican (Taco etc.)	28	694,514	322,758	371,756
Seafood	11	773,736	317,572	456,164
Pancakes, Waffles	16	726,429	204,180	522,249
Steak, Full Menu	94	5,225,166	2,575,335	2,649,831
Sandwich and Other	33	205,850	29,260	176,590

** Estimated by respondents for 1980 and 1981.*

Sales of franchised restaurants of all types reached $28 billion in 1980, up 12 percent over 1979; they are expected to jump about 14 percent to $31 billion in 1981

RESTAURANT FRANCHISING: 1979-1981

Major Activity	Firms	1979 Total	1979 Company-Owned	1979 Franchisee-Owned
Total	399	58,936	16,884	42,052
Chicken	32	7,075	1,990	5,085
Hamburgers, Franks, Roast Beef, etc.	112	27,310	5,153	22,157
Pizza	73	8,407	3,285	5,122
Mexican (Taco, etc.)	28	2,477	1,050	1,427
Seafood	11	2,383	965	1,418
Pancakes, Waffles	16	1,600	427	1,173
Steak, Full Menu	94	8,487	3,788	4,699
Sandwich and Other	33	1,197	226	971

** Data estimated by respondents for 1980 and 1981.*

U.S. FRANCHISED RESTAURANTS, 1979-1981 SUMMARY

Item	1979	1980*	1981*	Percent Changes 1979-80	Percent Changes 1980-81
Total number of establishments:	58,936	63,001	68,558	6.9	8.8
Company-owned	16,884	17,835	19,175	5.6	7.5
Franchisee-owned	42,052	45,166	49,383	7.4	9.3
Total sales of products and services: ($000)	24,765,916	27,715,761	31,486,881	11.9	13.6
Company-owned	8,076,401	8,921,173	10,028,787	10.5	12.4
Franchisee-owned	16,689,515	18,794,588	21,458,094	12.6	14.2
Total sales of products and services by Franchisors to Franchisees: ($000)	708,319	816,138	1,045,288	15.2	28.1
Merchandise (non-food) for resale	29,195	29,805	43,146	2.1	44.8
Supplies (such as paper goods, etc.)	233,019	279,189	345,009	19.8	23.6
Food ingredients	400,135	479,160	622,543	19.7	29.9
Other	45,970	27,984	34,590	—39.1	23.6

**Date estimated by respondents.*

SALES ($000)

1980*			1981*		
Total	Company-Owned	Franchisee-Owned	Total	Company-Owned	Franchisee-Owned
$27,715,761	$8,921,173	$18,794,588	$31,486,881	$10,028,787	$21,458,094
2,453,343	819,477	1,633,866	2,697,441	921,500	1,775,941
14,564,882	3,467,298	11,097,584	16,701,359	3,938,811	12,762,548
2,354,486	891,500	1,462,986	2,734,770	1,032,201	1,702,569
750,783	342,297	408,486	823,138	366,568	456,570
853,296	371,245	482,051	957,284	435,644	521,640
806,566	233,783	572,783	917,852	271,586	646,266
5,681,244	2,762,048	2,919,196	6,331,601	3,023,137	3,308,464
251,161	33,525	217,636	323,436	39,340	284,096

NUMBER OF UNITS

1980*			1981*		
Total	Company-Owned	Franchisee-Owned	Total	Company-Owned	Franchisee-Owned
63,001	17,835	45,166	68,558	19,175	49,383
7,545	2,145	5,400	8,174	2,333	5,841
29,148	5,422	23,726	31,382	5,859	25,523
9,029	3,412	5,617	10,102	3,676	6,426
2,668	1,107	1,561	2,933	1,169	1,764
2,531	1,072	1,459	2,745	1,777	1,568
1,720	469	1,251	1,886	530	1,356
8,989	3,975	5,014	9,672	4,176	5,496
1,371	233	1,138	1,664	255	1,409

oline stations and mergers of existing franchised bottling plants.

Business format

This form of business activity is typical of the newer types of franchising that range from restaurants and non-food retailing to lodging, personal and business services, rental services, and real estate services.

In business format franchising a franchisor establishes a fully integrated relationship that includes not only product, service, and trademark but also a marketing strategy and plan, operating manuals and standards, quality control, and a communications system that provides for information feed-forward and feed-back.

Sales of business format franchisors are expected to be around $90 billion in 1981 compared with $79 billion in 1980 and $72 billion in 1979. In contrast to product and tradename franchises, the number of establishments of business format franchises is expected to increase to almost 291,000 in 1981 from about 253,000 units in 1979.

Sales of products and services by business format franchisors to their franchisees totaled $5.8 billion in 1979 and might rise to about $6.5 billion by 1981.

Franchisor sales of merchandise for resale were largest in the automotive products and services category—$2.2 billion in 1979—followed by non-food retailing—$1.8 billion.

Franchising sales of food ingredients amounted to $1.1 billion in 1979 of which $400 million went to restaurants and $541 million to food retailers other than convenience stores.

During the period 1973 to 1978, business format franchises, as an aggregate, increased their sales in real dollars by an average annual factor of 6.2 percent, while the Gross National Product and overall retail sector increased at average annual rates of 2.5 percent and 2.3 percent, respectively, according to a study by the International Franchise Association based on Department of Commerce data.

The study involved adjusting franchise sales figures from the Department of Commerce for inflation and comparing them with similarly adjusted figures for retailing and the economy in general. Interviews were also conducted with a number of industry sources.

The study revealed that over the period 1970 to 1980, franchising increased its share of the GNP from 10 percent to 15 percent. In 1980, franchising's share of the retail market stood at about one-third.

Industries leading the way in expansion were food specialties (baked goods, ice cream, delicatessens, etc.) restaurants, real estate, business services (printing, accounting, tax preparation, and temporary employment) and convenience stores.

In these categories, franchised units increased their sales volumes at a quicker pace than the average for all those stores in the category as a whole—both franchised and non-franchised.

Trends

Franchising will continue to be a driving force in the business world especially in the business format franchise sector of the retail and service industries during the 1980s.

Paving the way for franchising's continual growth is an increasing

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TOP 25 FRANCHISE RESTAURANT SYSTEMS

1979-80 systemwide sales by company and franchise (Sales in millions of dollars)

Franchise system	1979		1980		% Change
McDonald's	$5,385.	(1,495.c/3,890.f)	6,226.	(1,698.c/4,528.f)	15.6%
Kentucky Fried Chicken**	1,346.	(246.c/1,100.f)	1,973.	(273.c/1,700.f)	46.6
Burger King**	1,463.	(294.c/1,169.f)	1,844.	(341.c/1,503.f)	26.0
Wendy's	1,002.	(238.c/764.f)	1,209.	(310.c/899.f)	20.7
International Dairy Queen	926.	(1.2c/924.8f)	1,190.	(1.5c/1,188.5f)	28.5
Pizza Hut	829.	(433.9c/395.1f)*	902. *	(463.c/439.f)*	8.8
Big Boy	770.	(139.5c/630.5f)*	800.	(145.c/655.f)	3.9
Hardee's**	617.9	(204.2c/413.8f)	751.6	(262.6c/489.f)	21.6
Ponderosa**	406.9	(268.5c/138.4f)	481.5	(317.8c/163.7f)	18.3
Arby's	433.	(71.3c/361.7f)*	480. *	(82.8c/397.2f)*	10.9
Church's	408.3	(348.4c/59.9f)	465.5*	(391.8c/73.7f)*	14.0
Howard Johnson's	421.3	(306.6c/114.7f)*	444.4*	(326.1c/118.3f)*	5.5
Taco Bell	320.	(165.6c/154.2)*	410. *	(230.c/180.f)*	28.1
Bonanza	378.	(15.c/363.f)	395.	(0.c/395.f)	4.5
Long John Silver's**	342.9	(177.9c/164.7f)	386.6	(218.6c/168.f)	12.7
Burger Chef**	325.5	(93.2c/232.3f)	337.	(109.c/228.f)	3.5
Western Sizzlin**	278.1	(4.3c/273.8f)	323.0*	(4.6c/318.4f)	16.1
Dunkin Donuts**	283.8	(29.6c/254.2f)	311.7	(26.3c/285.4f)	9.8
Sonic Drive Ins**	275.*	(29.c/246.f)*	279. *	(28.c/251.f)*	1.5
Sizzler**	225.9	(70.3c/155.6f)	259.	(83.3c/175.2f)	14.7
Arthur Treacher's	226.3	(48.4c/177.9f)	247. *	(49.c/198.f)*	9.1
A & W**	273.	(1.c/272.f)	246.	(1.c/245.f)	(9.9)
Perkin's 'Cake & Steak	223.7	(72.c/151.7f)	243.6	(86.4c/157.2f)	8.9
International House of Pancakes	205.6	(11.4c/194.2f)	213.6	(32.7c/180.9f)	3.9
Pizza Inn	189.	(89.9c/99.1f)	202.5	(96.5c/106.f)	7.1

1979-80 systemwide units by company and franchise

Franchise system	1979		1980		% Change
McDonald's	5,747	(1,547c/4,200f)	6,263	(1,608c/4,655f)	9.0%
Kentucky Fried Chicken**	4,254	(743c/3,511f)	4,276	(769c/3,507f)	0.5
Burger King**	2,439	(439c/2,000f)	2,766	(444c/2,322f)	13.4
Wendy's	1,818	(433c/1,385f)	2,034	(506c/1,528f)	11.9
International Dairy Queen	4,860	(6c/4,854f)	4,850	(6c/4,844f)	(0.2)
Pizza Hut	3,749	(1,947c/1,802f)	3,803	(1,930c/1,873f)	1.4
Big Boy	1,100	(195c/905f)	1,150	(205c/945f)	4.5
Hardee's**	1,231	(449c/782f)	1,320	(491c/829f)	7.2
Ponderosa**	636	(426c/210f)	681	(450c/231f)	7.0
Arby's	928	(138c/790f)	1,051	(120c/930f)	13.3
Church's	1,125	(897c/228f)	1,260	(987c/273f)	12.0
Howard Johnson's	867	(631c/236f)	843	(621c/222f)	(2.8)
Taco Bell	1,100	(591c/509f)	1,270	(736c/534f)	15.5
Bonanza	680	(0c/680f)	674	(0c/674f)	(0.9)
Long John Silver's**	1,007	(515c/492f)	1,033	(578c/455f)	2.6
Burger Chef**	803	(226c/577f)	751	(244c/507f)	(6.5)
Western Sizzlin**	400*	(6c/394f)	450*	(6c/444f)	12.5
Dunkin Donuts**	1,007	(95c/912f)	1,055	(65c/990f)	4.8
Sonic Drive Ins	1,182	(149c/1,033f)	1,123	(126c/997f)	(5.0)
Sizzler**	402	(106c/296f)	452	(128c/324f)	12.4
Arthur Treacher's	777	(157c/620f)	732	(159c/573f)	(5.8)
A & W**	1,437	(3c/1,434f)	1,318	(3c/1,315f)	(8.3)
Perkins 'Cake & Steak	359	(94c/265f)	373	(106c/267f)	3.9
International House of Pancakes	468	(28c/460f)	500	(112c/388f)	6.8
Pizza Inn	747	(357c/390f)	747	(346c/401f)	0

Above data includes U.S. and foreign sales and units

** Data estimated by **Restaurant Business***

*** Fiscal year-end results (remainder are calendar year-end results)*

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The 1980s should see a greater influx of foreign franchisors penetrating the U.S. market from Canada, and also from the United Kingdom, Europe and Japan.

population with more leisure time and with stronger inclinations toward recreation activities of all types.

Ethnic food restaurants are expected to move into the marketplace in increasing numbers, along with hair styling salons, retail stores featuring technological items such as home computers, and franchises that concentrate on convenience and specialization.

The 1980s should see a greater influx of foreign franchisors penetrating the U.S. market mostly from Canada, but also from the United Kingdom, Continental Europe, and Japan; they will be specializing in restaurants, clothing, furniture, and automotive products and services.

The acquisition pace in franchising remains strong as large corporations and conglomerates intensify their attempt to take over independent franchising chains. Diversification into franchising is becoming a key strategy for these large organizations.

The most significant trend in franchised regulation is a renewed effort by state franchise law administrators and the Federal Trade Commission staff to make state registration and disclosure (where applicable) more uniform and less costly to franchisors.

The franchise committee of the

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RESTAURANT FRANCHISING
GROWTH IN SALES, 1975-1980
(SALES: $000)

Major Activity	Total sales			Company-owned			Franchisee-owned		
	$ 1975	1980*	% Change	1975	1980*	% Change	1975	1980*	% Change
Total	$11,472,935	$27,715,761	142%	$3,787,925	$8,921,173	136%	$7,685,010	$18,794,588	145%
Chicken	1,329,200	2,453,343	85	448,855	819,477	83	880,345	1,633,866	86
Hamburgers, Franks, Roast Beef	6,471,848	14,564,882	125	1,680,429	3,467,298	106	4,791,419	11,097,584	132
Pizza	886,135	2,354,486	166	350,040	891,500	155	536,095	1,426,986	173
Mexican	197,773	750,783	280	82,346	342,297	316	115,427	408,486	254
Seafood	260,061	853,296	228	104,105	371,245	257	155,956	482,051	209
Pancakes, Waffles	301,815	806,566	167	54,495	233,783	329	247,320	572,783	132
Steak, Full Menu	1,979,518	5,681,244	187	1,063,830	2,762,048	160	915,688	2,919,196	219
Sandwich and Other	46,585	251,161	439	3,825	33,525	776	42,760	217,636	409

Estimated by survey respondents for 1980. *Source: U.S. Dept. of Commerce, Restaurant Business*

RESTAURANT FRANCHISING
GROWTH IN NUMBER OF UNITS, 1975-1980

Major Activity	Total Units			Company-owned			Franchisee-owned		
	1975	1980*	% Change	1975	1980*	% Change	1975	1980*	% Change
Total	43,072	63,001	46%	11,168	17,835	60%	31,904	45,166	42%
Chicken	6,073	7,545	24	1,784	2,145	20	4,289	5,400	26
Hamburgers, Franks, Roast Beef	23,438	29,148	24	3,708	5,422	46	19,730	23,726	20
Pizza	4,993	9,029	81	2,035	3,412	68	2,958	5,617	90
Mexican	1,279	2,668	109	472	1,107	135	807	1,561	93
Seafood	1,078	2,531	135	428	1,072	150	650	1,459	124
Pancakes, Waffles	901	1,720	91	173	469	171	728	1,251	72
Steak, Full Menu	4,957	8,989	81	2,545	3,975	56	2,412	5,014	108
Sandwich and Other	353	1,371	288	23	233	913	330	1,138	249

Estimated by survey respondents for 1980 *Source: U.S. Dept. of Commerce, Restaurant Business*

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The hamburger segment dominates restaurant franchising, accounting for more than 52 percent of sales and 46 percent of units in 1980.

North American Securities Administrators Association, comprised of Administrators from states that have franchise laws, has adopted uniform registration guidelines which are expected to be approved by the individual states.

Also, under development is a revised "universal" disclosure document. When accompanied by a "State Addendum" this document should be acceptable to all franchise regulatory authorities.

Greater numbers of companies still look to franchising as an ideal system for growth, while both men and women look upon franchising as a means to become independent entrepreneurs under the protective umbrella of a firm that can offer instant identification. Consequently, the net number of franchisors entering the franchise system has been growing steadily and is expected to continue to do so in the early 1980s.

International markets

In recent years, American-style franchising has taken hold in many countries throughout the world especially Canada, Europe, Australia and Japan. Expansion into foreign markets by U.S. franchisors continues to exceed that of domestic franchising despite increased competition from local foreign firms and international firms.

Some of the reasons for the movement into foreign markets are changing consumer tastes, rising per capita income, higher standard of living, receptivity to the American style of franchising, increased consumer orientation, and population concentration.

A total of 275 U.S. business format franchising companies operated 19,449 outlets in foreign countries in 1979, compared to 266 franchisors with 17,156 in 1978. This interest in foreign markets by U.S. franchisors is expected to continue over the next few years, especially by smaller and medium sized franchisors marketing a variety of services and products.

An additional 106 franchising companies plan to expand their U.S. franchising operations into foreign countries by the end of 1981; 30 of these are restaurant franchisors while 16 are franchisors of automotive products.

The form of entry into foreign markets varies considerably, with many firms using more than one method in conducting foreign operations. Of the 275 franchisors doing business in foreign countries in 1979, 261 sold their outlets to franchisees either directly or through a master licensee who received the right to develop the franchisor's system in a specific country or region, 22 operated joint ventures, and 32 had some company units.

Twenty-five of these companies derived 10 percent or more of their income from foreign operations, 24 firms received between 5-9 percent, 90 between 1-4 percent, and 136 received less than 1 percent.

Canada is the dominant market for U.S. franchisors, with 38 per-

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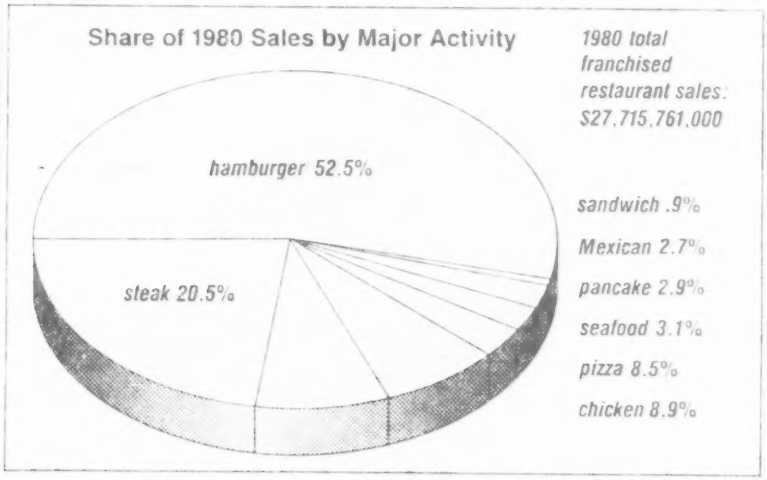

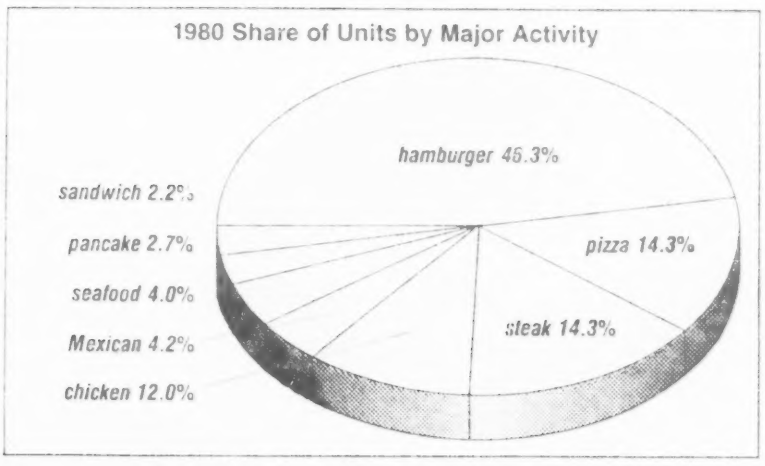

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Franchised restaurant chains have increased their share of the eating place market from 29 percent to 42 percent in the last five years.

cent of all U.S. foreign franchised outlets located there. A total of 204 franchising firms with 7,324 units operated in Canada in 1979, predominately in non-food retailing (1,661), restaurants of all types, (1,383), and automotive products and services (1,213).

Japan continues to be the second largest market for U.S. franchisors with a total of 3,183 units of which 72 percent represent various food categories such as restaurants, donut shops, ice cream stores, and convenience food stores.

The United Kingdom ranks third with 2,321 outlets, while 2,649 outlets are located in all of Continental Europe.

Changes in ownership

Changes in ownership in 1979 involved 10,855 units belonging to 715 franchisors. These changes included conversions to franchisee-owned or to company-owned operations, and discontinuation of either company-owned or franchisee-owned outlets.

Specifically, 710 outlets were purchased for company ownership while 1,052 were converted to franchisee ownership. As in previous years the largest portion of these changes occurred in the restaurant sector of franchising.

The number of establishments discontinued in 1979 stood at 9,093, of which 1,487 were company-owned and 7,606 franchisee-owned.

Since 1975, the trend in franchising has reflected an increase in conversions of company-owned units to franchisee-ownership, and as in previous years, the survey shows that most units repurchased for company ownership were temporary buybacks for a multitude of reasons, the least of which was the company's desire to withdraw from the franchise system or operate these units permanently themselves.

Failures and departures

A total of 42 franchisors operating 3,744 outlets failed during 1980, according to the U.S. Department of Commerce survey. The volume of 1979 sales for the 42 firms that failed in 1980 amounted to $498 million, of which the franchisee-owned portion was $467 million. Compared to total business format franchising sales of $72 billion, the $498 million represents only 0.7 percent of this segment's sales.

In addition, 74 companies decided in 1980 to discontinue franchising as a method of doing business; these companies operated 5,661 units in 1979 with $956 million in sales, of which 5,192 outlets with $783 million in sales were franchisee-owned.

Renewals, terminations

In 1979, 15,364 franchise arrangements came up for renewal, of which 14,126 or 92 percent were renewed and 1,238 franchisees were not. Of the latter, 169 were not renewed because of objections by the franchisor, 615 because the franchisee did not wish to renew, and 454 because of mutual agreement.

There were 7,480 terminations of franchise agreements in 1979, of which 2,634 were terminated by franchisors—1,434 for non-pay-

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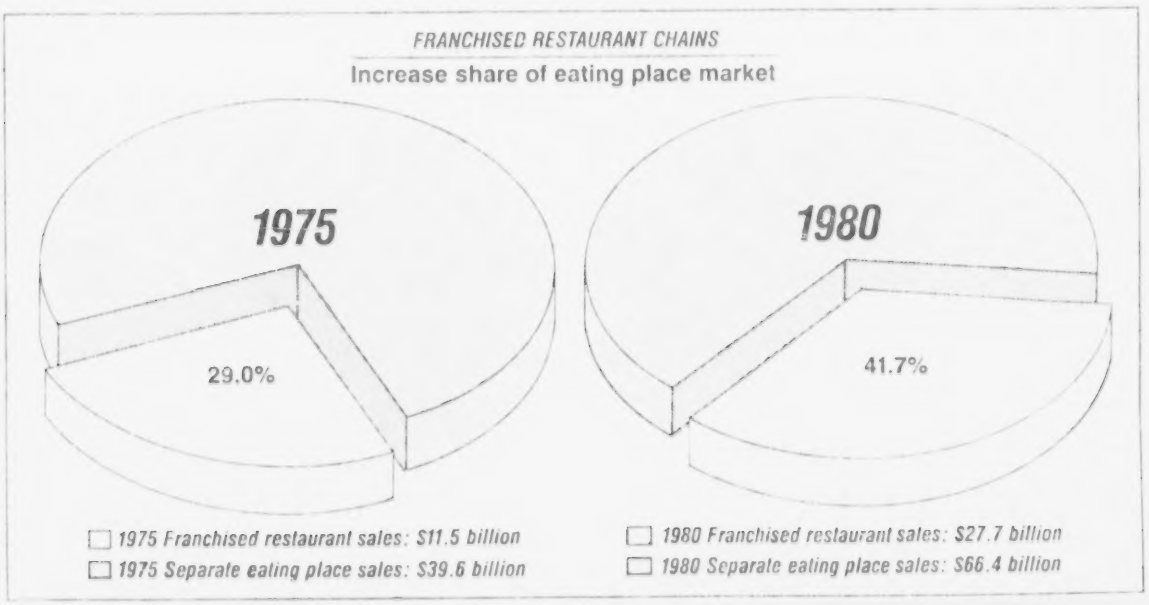

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Employment in the franchised restaurant industry should increase steadily during the 1980s as restaurant units grow at about 8 percent annually.

ment of royalties or other financial obligations, 85 for the franchisee's failure to comply with quality control standards, and 1,115 for other reasons not identified.

Franchisees were responsible for terminating 3,701 franchise agreements while an additional 1,145 were terminated by mutual consent.

A total of 3,388 franchisees in 1979 asked permission from their franchisors to sell their franchises to other businesspersons; all but 44 transfers were approved.

Retail sales of all firms associated with the franchise system—franchisee-owned and company-owned—reached an estimated $295 billion in 1980, and accounted for 31 percent of all retail sales in the U.S. In 1981, retail franchising is expected to reach $333 billion, a rise of 13 percent over 1980. Retail franchising accounts for 88 percent of all franchising gross receipts.

Restaurant franchising

Franchised restaurants of all types, including fast food, continue to be the best known and most popular sector of business format franchising. Stepped-up activity is evident in such areas as increasing customer counts, introduction of new products, store upgrading or modernization programs, and expanding menus.

Sales of franchised restaurants of all types reached $28 billion in 1980, up 12 percent over a year earlier; they are expected to jump about 14 percent to $31 billion in 1981. Franchised restaurants numbered 58,936 in 1979, increased to 63,001 in 1980 and are expected to rise to about 68,500 units in 1981.

The highest concentration of franchised restaurants continues to be in California, Texas, and Ohio.

Employment in the franchised restaurant sector stood at 1,497,283 in 1979 up from the 1,367,637 individuals employed a year earlier, a rise of almost 10 percent. Employment in the franchised restaurant industry should increase steadily during the 1980s as restaurant units grow at an average annual rate of about 8 percent over the next few years; this, in response to population growth and to increased spending for food and beverages outside the home.

In 1979, employment in the franchised restaurant sector accounted

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U.S. FRANCHISED RESTAURANTS*
Number of Establishments by State: 1979

State	Total	Company-Owned	Franchisee-Owned	State	Total	Company-Owned	Franchisee-Owned
Alabama	770	164	606	Nebraska	499	136	363
Alaska	86	3	83	Nevada	234	81	153
Arizona	757	234	523	New Hampshire	135	30	105
Arkansas	640	124	516	New Jersey	971	144	827
California	5,376	1,488	3,888	New Mexico	403	67	336
Colorado	996	273	723	New York	2,016	560	1,456
Connecticut	430	95	335	North Carolina	1,290	263	1,027
Delaware	97	16	81	North Dakota	177	16	161
District of Columbia	86	32	54	Ohio	3,025	1,101	1,924
Florida	2,359	753	1,606	Oklahoma	1,096	422	674
Georgia	1,712	671	1,041	Oregon	728	197	531
Hawaii	150	60	90	Pennsylvania	1,687	437	1,250
Idaho	237	36	201	Rhode Island	107	27	80
Illinois	2,674	761	1,913	South Carolina	744	206	538
Indiana	1,831	460	1,371	South Dakota	199	24	175
Iowa	1,105	150	955	Tennessee	1,271	402	869
Kansas	813	202	611	Texas	5,128	1,735	3,393
Kentucky	1,143	280	863	Utah	355	89	266
Louisiana	877	268	609	Vermont	47	0	47
Maine	120	31	89	Virginia	1,278	402	376
Maryland	650	204	446	Washington	880	240	640
Massachusetts	619	172	447	West Virginia	420	122	298
Michigan	2,367	661	1,706	Wisconsin	1,155	228	927
Minnesota	1,164	310	854	Wyoming	136	15	121
Mississippi	601	89	512				
Missouri	1,269	392	877				
Montana	189	12	177	TOTAL	53,099	14,885	38,214

** Represents 90 percent of total establishments.*
The remaining 10 percent were unable to provide a geographic breakdown for this report.

Circle No. 59 →

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In 1979, there were almost 400 companies franchising restaurants.

for almost 33 percent of total franchising employment, more than any other franchise sector. Furthermore, franchised restaurant employees accounted for an estimated 40 percent of all persons employed in eating places in the United States.

The entry into the restaurant franchising system mostly by small companies continued in 1979 with a net gain of 11 franchisors, bringing the total to 399.

During 1980, 11 franchisors with a total of 253 restaurants, 190 franchisee-owned, went out of business while 11 franchisors with a total of 238 restaurants, 42 franchisee-owned, decided to abandon franchising as a method of marketing.

Big franchisors with over 1,000 units each increased to 14 in 1979 from 11 a year earlier. These 14 franchisors had 32,435 restaurants, 55 percent of all franchised restaurants, and accounted for $14.7 billion in sales, 58 percent of the total. Compared with 1978, the 11 franchisors with over 1,000 units each, had 50 percent of the total units and 54 percent of the sales.

In an effort to improve sales volume, many franchised restaurant chains are attempting to build a breakfast following. Some are augmenting their breakfast menu mix hoping to boost sales while others are testing or introducing limited breakfast menus. It should be observed, however, that the value that can be derived from experimentation in breakfast menus as a way of improving customer counts, has by no means been universally accepted.

Motivated by a desire to increase earnings, large franchised restaurant chains as well as medium and small franchisors are either expanding their business overseas or entering these markets for the first time. Chain penetration of foreign firms is low in most countries thus creating greater opportunities for U.S. franchisors.

Despite high real estate costs, national eating habits, high labor costs in some countries, consumer resistance, and intense competition, American restaurant franchisors are moving into foreign markets at a rapid rate. In 1979, 55 restaurant franchisors operated 3,912 units throughout the world. Another 30 franchisors plan to extend their operations to foreign countries by the end of 1981.

Canada is the largest market for franchisors of restaurants, followed by Japan, the United Kingdom and Continental Europe.

Convenience stores

Strong growth is being experienced by convenience stores both in the number of stores and the dollar volume, providing the many "fill-in" items that consumers need in-between their regular excursions to the supermarkets.

Growing numbers of convenience stores are realizing extra sales by installing on their premises gasoline pumps, usually self-service.

In order to increase sales volume and compete with fast food restaurants, convenience stores are offering a wide variety of takeout foods such as hot and cold sandwiches, coffee, chicken, limited fare of hot dogs, and an assortment of other dishes, pre-cooked by the supplier and requiring only reheating or reconstituting in a microwave oven.

Despite intensified competition from supermarkets offering extended hours and Sunday shopping, franchised convenience stores are growing steadily both in sales and outlets. Sales moved up to $6.9 billion in 1980, 13 percent above a year earlier while the number of franchised establishments were reported to be 15,543. Further gains are expected in 1981; 10 percent in sales and 6 percent in number of establishments.

Food retailing

The retailing of food by specialty

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INTERNATIONAL RESTAURANT FRANCHISING IN 1979
Location and Number of Establishments*

Major Activity	U.S. Firms	Total	Canada	Mexico	Caribbean	Europe		Asia		Australia	Other**
						United Kingdom	Other	Japan	Other		
Total	55	3,932	1,383	95	148	494	212	801	159	422	218
Chicken	8	1,171	82	52	70	284	28	258	59	193	145
Hamburgers, etc.	14	2,006	945	12	59	197	183	374	58	131	47
Pizza	6	288	50	13	13	7	1	49	37	93	25
Mexican	4	4	1	0	2	0	0	0	1	0	0
Seafood	4	126	123	0	0	0	0	3	0	0	0
Pancakes, etc.	3	13	6	0	0	0	0	6	1	0	0
Steak, full menu, etc.	15	323	175	18	4	6	0	111	3	5	1
Sandwich, others	1	1	1	0	0	0	0	0	0	0	0

** Includes company-owned, franchisee-owned, and joint ventures.*
*** Includes South America (9) Africa (101) New Zealand (53) Central America (55).*
Source: U.S. Dept. of Commerce.

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Hotels/motels in 1979 enjoyed their highest occupancy in 20 years.

food shops, donut shops, ice cream stores, coffee services, and others, amounted to $7.2 billion in 1980, 10 percent over the previous year; sales in 1981 are expected to reach $7.9 billion. The number of establishments in 1980 was 15,274, expected to rise to 16,292 in 1981.

Two of the better known groups in this category are donut shops and ice cream stores.

In 1979, there were 17 franchisors of donut shops providing jobs for 28,112 workers. Sales and establishments for donut shops for the years 1979-81 are listed in the accompanying tables.

The sales and units of the 26 franchisors of ice cream stores, who in 1979 created employment for 40,325 persons, are also listed in the accompanying tables.

Prior to 1976, the repurchasing of franchisee-owned restaurant units surpassed that of company units converted to franchisee-owned units. This trend seems to have reversed itself in 1976, as shown in the accompanying tables.

In order to compete with other restaurant chains, many franchise operators have become more customer oriented and are offering such amenities as waiter/waitress service or self/drive-in/drive thru service. Most restaurants offer one type or the other, but 20 franchisors offer both types of services, although one type clearly dominates.

Of the 399 restaurant franchisors in 1979, 252 operated predominately self-service establishments and 147 operated predominately waitress-service establishments.

Hotels and motels

Hotels and motels in 1979 enjoyed their highest occupancy level in 20 years. Motels, generally lower priced than hotels, have consistently held a higher occupancy rate than hotels, but in 1979 their rates were almost the same, 71 percent for motels compared with 72 percent for hotels.

The hotel and motel industry should show continued strength during the next few years reflecting a concerted effort for accommodating the international traveler as well as travelers of specific age groups.

Hotel and motel franchisors in 1980 represented 5,573 establishments with receipts estimated at $7.4 billion. Survey respondents expect that receipts will rise 10 percent in 1981, to an estimated $8.1 billion.

In 1980, franchised hotels and motels account for an estimated 31 percent of employment and receipts of the entire hotel and motel industry.

DONUT SHOPS *(17 franchisors)*

	Sales ($000)			Units		
	Total	Company-owned	Franchisee-owned	Total	Company-owned	Franchisee-owned
1979	555,058	48,750	506,308	2,317	191	2,126
1980*	602,546	54,435	548,111	2,436	196	2,240
1981*	668,015	61,590	606,425	2,595	209	2,386

ICE CREAM STORES *(26 franchisors)*

	Sales ($000)			Units		
	Total	Company-owned	Franchisee-owned	Total	Company-owned	Franchisee-owned
1979	598,509	21,347	577,162	5,355	112	5,243
1980*	673,380	19,321	654,059	5,630	93	5,537
1981*	762,935	19,745	743,190	6,399	94	6,305

** Estimated by respondents.*